ASSESSING THE LONG TERM VIABILITY OF LEASEHOLD RURAL LAND IN QUEENSLAND

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ABSTRACT

Rural land holdings in a number of states in Australia can be freehold or leasehold. The actual type and tenure of the leasehold varies according to each state, but the underlying principles of ownership, transferability and farming and grazing rights are reasonably similar. There are rural areas that are all leasehold title such as the western lands in NSW, while rural land in some states and areas can be a mix of both freehold and leasehold rural property. Over the years many rural farming areas that were originally developed or granted as leasehold land have been converted to freehold title.

In many instances the cost of purchasing perpetual leasehold property is similar to the equivalent freehold property despite the fact that an additional rental charge is applied to this form of ownership. Many of the current leasehold rural holdings are located in the more arid regions of the state and the prevailing agricultural farming system is either cattle or sheep grazing.

Keywords: Rural land, leasehold rural property, term leases, farm viability

INTRODUCTION

Large areas of rural Australia are held under leasehold title. Each State in Australia has their own acts and legislation governing the ownership controls and rental assessment policies for rural land held under leasehold title. The lease structures can vary, with some leases being for a fixed term and others held in perpetuity.

Leasehold title has restrictions that are not subject to freehold title land and in the case of some leasehold title rural land this can be a detrimental feature, while in some cases the impact is virtually negligible. In many Australian rural property markets the price differential between the purchase of freehold land and the purchase of rural leasehold land in the same or similar locations is minimal, yet the leasehold land carries the additional expense of an annual rental payment to the respective State government.

This paper is based on a survey of 146 rural leasehold land owners in Queensland in relation to their overall farm financial performance to determine their income return for the 2010 financial year both pre and post rent payment. In addition to the general survey, a number of survey respondents agreed to supply full financial details to determine the leasehold property income returns over the five year period from 2006 to 2010. Based on the additional information, it is possible to determine the longer term impact of current lease rental structures on leasehold rural property in Queensland.

RURAL LEASEHOLD PROPERTY IN AUSTRALIA

Land holdings in Australia are based on the doctrine of tenure, the feudal system of land management inherited from English common law. An estate in fee simple, commonly referred to as freehold land ownership is by virtue of a grant by the crown. All land which is not the subject of such a grant remains as Crown land and may be subject to a crown or state lease or some other tenure type. The introduction of crown or state leases in Australia is largely due to Australia’s history and geography. In the early days of the colony of New South Wales pastoral land was held under tickets of occupation which later became annual licenses. This was a predecessor to the tenured lease that we are familiar with today (ABS, 2009). In Queensland the notion of crown leasehold land was largely borne from a desire by the

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Queensland government to receive lease payments for the practice that had become common of running cattle across large tracts of land. This practice was driven from the lack of carrying capacity that much of the state’s land has.

According to Eves (2000) there is limited academic attention given to the rural sector and rural land holdings in Australia by property academics when compared to the commercial sector. De Garis (2010, page 239) further states “there is a dearth of research being done into rural property, including in relation to leasehold interests”. He further states that although work has been done in this area overseas the transferability of this work to Australia is questionable due to the statutory differences.

The complexities surrounding land tenure in Australia are increased due to the responsibility for land management coming under the jurisdiction of each state and territory by virtue of section 51 of the Commonwealth Constitution. Each state and territory in Australia has enacted legislation that relates to the management of crown land and inturn crown leasehold land (the Land Act 1994 (Qld); Crown Lands Act 1989 (NSW)).

Although there are differences between each of the statutes that manage crown land across Australia there does seem to be a common theme of maintaining the best possible outcomes for the state. The Queensland legislation imposes a duty of care for all leaseholders to take reasonable care to maintain the land and ensure it is pest free. In New South Wales state land is subject to an assessment before any lease is granted and the objects and principles of the Crown Lands Act are followed in making the assessment. The objects of the CLA being to ensure that State land is managed for the benefit of the people of New South Wales; in the best interests of the State and consistent with the stated principles. The overall objective being to “…facilitate sound and efficient land use and management decisions that best meet the government and community needs for the remaining… “State lands. Land that is drier and more arid is commonly held under some form of tenure other than freehold.

Unlike the position in Queensland, in NSW state leases are given the benefit of registration under the Real Property Act and the lessee is given indefeasibility of title and access to a compensation system as conferred by the Torrens system of registration. However, Queensland is at odds with other Australian States and Territories in that it does not provide for indefeasibility of title where leasehold land is concerned.

The method of calculation of lease payments by lessees varies from state to state. In Victoria the setting of rents at the outset of the lease and at rent reviews is not bound by a statutory formula but rather is negotiated by the parties. De Garis (2010) comments that there are four typical ways that rent can be established. The first approach is to use the percentage of market value, the second is to use agistment rates, the third examines the productive value of the land; and the fourth uses a gross margin or income approach. Garis further states that while the analysis of productivity is the preferred approach there is a lack of current comparable information from which analyse.

The lease term for each of the states and territories varies according to each of the acts administering the land tenure. Generally short term leases do not encourage rigorous land management and capital investment in land and for this reason many states and territories will adopt a longer term lease. According to De Garis (2010) much of the land in western New South Wales is held under 99 year leases.

The significance issues surrounding leasehold tenure is exacerbated in states such as Queensland and Western Australia which the majority of land in the state being held as unallocated state (or Crown) land (71% and 93% respectively). Much of this land is held under state leasehold tenure for a variety of purposes. Alternatively, De Garis (2010) comments that merely 4.7% of the state of Victoria is government owned land. A unique position exists in the Australian Capital Territory in that there is a Constitutional requirement that Canberra be on land that is vested and belonging to the Commonwealth. Whilst there have been some changes to ensure free and automatic renewal of leases for commercial development, rural land has traditionally been seen as land banking for future urban development and has traditionally been subject to short leases with little ongoing security.

**RURAL LEASEHOLD PROPERTY IN QUEENSLAND**
Interests in crown land in Queensland are administered through the *Land Act 1994* (Qld). According to Cradduck & Blake (2010) the Land Act is a statutory code which authorises the creation of interests in, dealings in those interests and the management of unallocated state land in Queensland (*State of Queensland v Litz*). It regulates the rights and obligations of both interested parties and the State. Unlike the *Land Titles Act 1994* (Qld) which deals with freehold land interests, the Act does not contain any provision dealing with the quality of the registered interests created. It does not create indefeasibility of title which is the cornerstone of all freehold land interests. There is no method provided to compensate a party who is deprived of their leasehold interest.

This act seeks to achieve stewardship of and interests created in that land. It achieves this by requiring that state land be managed having regard to the principles of sustainability, evaluation, development, community purpose, protection, consultation and administration (section 4 of the Land Act 1994). To some extent there has been a rationalisation of state land following the introduction of the most recent Land Act and decisions surrounding the most appropriate tenure for land are very much grounded in land/environmental management considerations. Section 16 of the Land Act introduces the requirement that prior to allocation the land must be evaluated to determine the most appropriate tenure taking into account State, regional and local planning policies and strategies, and the object of the Act.

By virtue of the Land Act 1994 the state controls nearly 71% of Queensland, approximately 63% of which is state leasehold land (Qld Govt Natural Resources and Water, 2007). As established through the Wik decision (*Wik Peoples v Queensland*) the granting of a leasehold interest in state land does not necessarily give rise to exclusive possession. The position is contrary to the legal position in commercial leases (*Radaich v Smith*). Much of this land is also subject to a dual use arising from alternative legally recognised land uses such as native title and state leases for a variety of agricultural, pastoral, mining and tourism purposes.

Lessees have a duty of care for the land and are only permitted to use the land for the purpose stated in the lease. The concept of the duty of care owed by the leaseholder is further explained in the Delbessie Agreement 2007. Under this agreement leaseholders will satisfy their duty of care if they take reasonable steps to undertake a variety of stipulated land management activities that relate to weed management and pest prevention. The Queensland Government has provided additional land management policy support through the promulgation of *Managing grazing lands in Queensland* (2011).

Prior to granting a lease in Queensland the Chief Executive is required to evaluation the land to assess the most appropriate tenure and use (s16(1)). That evaluation must take into account the state, regional and local planning strategies and policies and the seven principles stated above (section 16(2)). The crown takes on the role of steward of the land in addition to their role is the land owner and lessor.

It is widely acknowledged that much of the land, which remains crown leasehold land in Queensland, remains so as a result of a deliberate decision by the State that this land requires ongoing custodianship by the state and the lessee. The crucial role that lessees play in maintaining this land is acknowledged in the Delbessie Agreement 2007. This document recognises the necessity of a collaborative approach between the stakeholders to achieve environmental and sustainability outcomes while ensuring that the agricultural sector in Queensland continues to be economically sustainable.

According to the Delbessie Agreement (2007) there are many challenges facing rural leasehold land are in maintaining the environmental, social and economic sustainability. The following interdependent challenges have been identified:

- Achievement of sustainable rural communities
- Profitability of businesses
- Security of tenure as it impacts on business investment decisions
- Community interest in sustainable resource management
- Environmental impacts of poorly managed agricultural production
• Lack of appropriate information with respect to resource management
• Clarification of duty of care obligations
• Responding to the aspirations of indigenous groups seeking access to leasehold
• Identification and protection of cultural heritage
• Provision of public access for special landscape features for recreational and community purposes.

(Delbassie Agreement, 2007)

The Delbassie agreement moves to consolidate many of the environmental stewardship elements of the Land Act 1994 in recognising that much of the state leasehold property in Queensland is environmentally fragile. It has sought to link environmental outcomes concerning the management of the land with increased security of tenure of the leases.

Cradduck & Blake (2011) highlight the lack of security of tenure in Queensland Crown leases which could be to the detriment of leaseholders. A failure to comply with a condition precedent in the Act means that the title may be set aside. An innocent party could therefore be deprived of their interest but, unlike freehold land, they would not have access to compensation.

In Queensland the calculation of rental paid for leasehold land is subject to a statutory formula contained in the regulations that accompany the Land Act 1994, the Land Regulations 2010. Following the introduction of the current land regulation, the rental payments for primary production land is based on 1.5% of the five year average value of the land. The land value is determined by the unimproved value of the land according to the Valuation of Land Act 2010. The application of this method requires the adjustment of appropriate sales to identify the value of a parcel of land less any improvements that have been made to it including clearing and fencing. Finding suitable sales evidence can be challenging in the rural sector. Whilst the averaging of sales over a five year period may initially appear fair and equitable it may result in a higher rental payments where there has been a fall in the market values following an extended period of economic buoyancy. Until 2017 rental payments are capped to be no more than 20% of the previous years annual rent.

RESEARCH METHODOLOGY

This research study has been undertaken to assess the viability of leasehold rural land in Queensland and to determine if increasing annual rents has the potential to impact on the net profit and overall long term viability of this form of rural land occupation. In addition the survey and analysis has been undertaken to determine the potential differences of leasehold rents on various farming systems in Queensland. The survey has also covered a range of geographic locations, which also allows a comparison of rural land across a range of climatic areas and farm production systems.

Data

The data for this research has been obtained from a selection of survey questions included in a recent survey of rural leasehold property owners in Queensland. The survey instrument was prepared and distributed by Agforce Queensland, with specific questions being included to provide additional data for this QUT study. Agforce is a major rural land holders organisation and was initially approached to assist in this study due to their ability to access a wide distribution of rural leasehold land owners in Queensland, who are members of this organisation. The survey instrument also included specific Agforce questions that were not part of the QUT research data requirements and as such do not form part of this research. All participants were informed of the QUT participation in the survey. Survey responses were collected by Agforce and the base data was compiled for this analysis. Data obtained covered the general demographics of the rural leasehold land owners in Queensland including:

• Lease type
• Area held under leasehold title
• Location of the property
• Predominant farming system
• Length the lease has been held

Table 1: Summary Survey Statistics: Location, Land use and Lease type: 2010

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>NUMBER</th>
<th>FARMING SYSTEM</th>
<th>NUMBER</th>
<th>LEASE TYPE</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>QLD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CENTRAL</td>
<td>47</td>
<td>BEEF/SHEEP</td>
<td>29</td>
<td>FREEHOLD</td>
<td>7</td>
</tr>
<tr>
<td>NORTH</td>
<td>52</td>
<td>BEEF ONLY</td>
<td>107</td>
<td>PERPETUAL</td>
<td>79</td>
</tr>
<tr>
<td>SOUTH WEST</td>
<td>20</td>
<td>SHEEP ONLY</td>
<td>6</td>
<td>TERM</td>
<td>60</td>
</tr>
<tr>
<td>SOUTH EAST</td>
<td>10</td>
<td>MAINLY CROP</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIQ</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Summary Survey Statistics: Farm Income and Expenditure

<table>
<thead>
<tr>
<th>FARM GROSS INCOME</th>
<th>NUMBER</th>
<th>FARM EXPENDITURE (% GFI)</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$150,000</td>
<td>18</td>
<td>LESS THAN 50%</td>
<td>9</td>
</tr>
<tr>
<td>$150,000 TO $300,000</td>
<td>39</td>
<td>51 TO 60%</td>
<td>10</td>
</tr>
<tr>
<td>$300,000 TO $500,000</td>
<td>33</td>
<td>61 TO70%</td>
<td>31</td>
</tr>
<tr>
<td>$500,000 TO $750,000</td>
<td>24</td>
<td>GREATER THAN 71%</td>
<td>96</td>
</tr>
<tr>
<td>&gt;$750,000</td>
<td>32</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Respondents were also asked to provide various details of their financial performance over the 2010 calendar year. This information included:

• Income and expenditure for the 2010 year (based on income ranges and expenditure percentages)
• Current annual lease payments

These initial survey questions in relation to farm financial performance were based on income bands and expenditure percentages. Gross farm income for the 2010 year was groups as follows:

Less than $150,000
Total farm expenditure was classified in the following bands as a percentage of total farm income:

- Less than 50%
- 51% to 60%
- 61% to 75%
- Greater than 75%

These income and expenditure bands covered the potential range of farm financial performance options for farm size, management type and farm production system.

A total of 146 fully completed surveys were received and a summary of the survey responses is shown in Tables 1 and 2.

An additional question of the survey asked if the survey respondents would be prepared to provide full financial details for the period 2006 to 2010, for a more detailed analysis of their farm viability over this period. In total (34) respondents agreed and supplied this detailed information. This additional information comprised full income and expenditure data for the period, including annual lease rentals for that extended time period. Based on this more detailed data, it was possible to determine leasehold rural land financial performance over the 2006 to 2010 period and also allowed some additional analysis to determine the possible impact of increasing rental rates on overall farm viability for rural leasehold land owners.

**Study Area**

The survey covered a range of farm sizes, lease types and farm production systems across rural Queensland. For analysis purposes these responses were groups according to the Queensland Department of Primary Industries and fisheries defined regions of:

- North
- South West
- Central
- South East
- SIQ

The location information supplied in the responses would also allow these regions to be further defined to more specific areas for more detailed future research.

**Survey instrument**
This survey was targeted to all current members of AgForce, who currently hold a leasehold rural property in Queensland. Surveys could be answered online, emailed or mailed to Agforce. On receipt of the surveys, the specific data requested to be included in the general survey was made available to QUT for analysis and reporting.

RESULTS AND DISCUSSION

This paper will focus on the net return for the rural leasehold land in Queensland and will also compare these returns based on pre rent and post rent results. Initial results focus on the 2010 financial year farm performance, with the later results summarising the financial performance of a smaller case study group over the period 2006 to 2010. The income returns for rural leasehold land in Queensland will also be compared to the income return for the other major property classes in Queensland. In addition to the farm financial data the survey instrument also required the respondents to list the value of their farm assets including land and improvements, livestock and plant and equipment. This additional data allowed an accurate assessment of income return for each farm to be calculated.

Figure 1 shows the income return for leasehold rural land in Queensland based on the 2010 gross farm income. From this Figure it can be seen that in the 2010 financial year the highest income return, before rent payments, of 4.07% was achieved by farmers earning in excess of $750,000. During the same period farmers on leasehold land who earned between $151,000 to $300,000 had the lowest income return of 2.34% (pre rent payment). On a post rent payment basis leasehold land owners earning above $500,000 had the highest income returns of 3.48% and 3.88%. The lowest post rent income return of 2% was recorded for land owners in the lower gross farm income brackets. Figure 1 also shows the leasehold rent for 2010 as a percentage of net farm profit. This shows that the rent paid by farmers in the highest GFI bracket represented 13.34% of net income. Slightly lower percentages of rent to net profit were recorded at 11.22% ($151,000 to $300,000 bracket) and 9.71% for the less than $150,000 bracket.

Figure 1: Income Return Comparison: Gross Farm Income
The lowest percentage of farm leasehold rent to net profit was in the leasehold farms earning between $500,000 to $750,000 at 6.17%.

In Figure 2, the net income returns for rural leasehold property is compared on the basis of farm production systems. Based on the type of rural production the income returns for leasehold land (post rent) ranges from a low of 1.41% for sheep grazing properties to a high of 4.21% for mixed farming properties. The low income return for the sheep grazing leasehold rural land results in the annual rental representing 21.26% of total net profit. In the beef only properties the annual rent is 13.63% of the 2010 average net profit for this production system. The sheep/beef properties had a slightly higher income return in 2010 compare to the beef only and sheep only properties, but the rent as a percentage of net profit was considerably lower than these two production systems (6.11%). The lowest rate of rent to net profit was recorded in the higher value land use of mainly cropping, where the rent as a percentage of net profit was only 5.1%. This shows that a more diversified rural commodity income stream results in a higher net profit, income return and a lower rate of rent to net profit. Single production systems have the potential for annual rent being a higher percentage of annual farm net profit.

**Figure 2: Income Return Comparison: Farm Production System**

Figure 3 shows a trend of slightly increasing income returns based on the period of time that the property has been held by the current lessee. Where the owner has operated the rural leasehold property for less than 5 years the average income return for 2010 was 1.9% (post rent). As the term of lease ownership increased to more than 20 years the average income return increased to 2.99%. Although the longer lease owners had higher income returns, there average lease rental was also higher resulting in the lease rental representing a greater proportion of their net profit (13.39%). In contrast, those owners who had occupied their leasehold property for six showed on average that rent accounted for 7.62% of net profit.

This suggests that any increase in lease rentals will have a greater impact on those rural leasehold owners who have owned their property for more than ten years.
Figure 4 compares the 2010 farm income returns based on the type of rural lease held by the owner. From this figure the difference between lease types has an impact on income return, both pre and post rent payment. Mainly freeholding leases recorded the highest average income returns for 2010 of 4.73% pre rent and 4.59% post rent payment. Perpetual lease recorded the lowest income return of an average 2.76% post rent payment.

As stated in the research methodology, the data for the 2010 financial year was based on GFI ranges and expenditure in a set bracket. Although this provides an average across the various respondent groups, it is not always a true reflection of the actual income return for that particular time period. Figure 5 represents the income returns for the main production systems based on an optimum basis (high end of the GFI bracket and low end of the expenditure bracket) and a most probable basis (midpoint between the average and low end of the GFI bracket and the midpoint between the average and higher figure of the expenditure brackets).
From these following is figures, it can be seen that the income returns for leasehold rural land can vary significantly based on the management levels of the farm operator.

**Figure 4:** Income Return Comparison: Lease type

**Figure 5:** Income Return Comparison: Optimum and Most Probable Returns: Production System
The mainly cropping lease type shows a most probable income return of 4.2%, with an optimum return of 5.69%. This contrasts significantly with the grazing production systems where the optimum income returns for 2010 were beef/sheep (3.88%), Beef only (3.42%) and sheep only (2.08%). On the most probable basis the 2010 income returns reduce to 2.69% (beef only), 3.49% (beef/sheep) and 1.41% (sheep only). With the sheep only leases the difference between the optimum income return in 2010 and the most probable income return for the same year is a decrease of 41%. The difference in the beef only properties was a decline of 22%.

Based on 2010 gross farm income (Figure 6), the highest optimum and most probable income returns were achieved by respondents earning in excess of $750,000 (4.39% and 3.88%) and those properties earning from $500,000 to $750,000 (4.03% and 3.48%). The lower performing farms on a GFI basis were those whose GFI was between $150,000 and $500,000.

Figure 6: Income Return Comparison: Optimum and Most Probable Returns: Gross Farm Income

Figure 7 again compares the most probable and the optimum 2010 farm income returns based on the time that the respondent had occupied the property. This figure shows that the longer the lease had been held, the greater the income return of 2010. It is also interesting to note that the difference between the most probable income return and the optimum income return for the time the lease had been held ranged from a decrease of 27.2% for 6 to 10 years held to a decrease of 23.5% for leases held in excess of 20 years. This result also confirms the greater impact of lease rental amounts and increases on newer rural leasehold property owners compared to owners who have held the leasehold property for more than 20 years.
A comparison of Queensland property income returns are shown in Figure 8. During 2010, the best performing property sector in Queensland in relation to income return has been the industrial property sector with an income return of 9.65% (over three times the income return from rural leasehold property. The residential property income return was also greater than leasehold rural return (4.9% and 2.94% respectively).

**Figure 8:** Comparison of Queensland Property Income returns: 2010
The following Figures 9 to 13, summarise the results of the individual farm income and expenditure figures that were supplied for the 2006 to 2010 financial years. Although the number of respondents for this detailed analysis were not as great as the general survey, the results do provide an interesting insight into the relative farm financial performance of the rural leasehold properties in Queensland. These figures group income return performance across the 5 years based on Gross farm Income (GFI).

**Figure 9: Income return: 2006 to 2010: Pre and Post Rent: GFI <$150,000**

These figures show that depending on the overall size of the property and the GFI generated, the income return can vary significantly from year to year, with the greatest impact of farm productivity being felt by small farms with GFI below $150,000. The study found that over the period 2006 to 2010, those farms surveyed showed a maximum income return deficit of 8.22% in 2007, and a negative return of 1.6% in 2008 and 3.12% in 2009. This group of surveyed leasehold surveyed farmers had their maximum income return of 2.74% in 2006 (Refer to Figure 9).

The trend in annual income returns for the respondents with GFI from $150,000 to $500,000 were relatively similar from 2006 to 2008, with negative returns in 2006, 2007 and 2010 (refer to figures 10 and 11). For the $150,000 to $300,000 GFI group, the most significant negative return was 1.51% in 2007, with the maximum income return after rent being 1.4% in 2008. For the $300,000 to $500,000 GFI group the maximum income return was 1.46% in 2008, with the most significant negative income return being 1.85% in 2007. The negative income returns for these groups was not as significant as the negative returns experienced by the smaller producers.
Although the number of respondents in the higher GFI groups were not as great as the other farm income categories, the results also show the impact that farm production variable have on farm income returns. The $500,000 to $750,000 GFI respondents recorded on average positive income returns in 2006 and 2008 (2.67% and 0.36% respectively). In all the
other years of the survey they recorded negative income returns, with the most significant being 2.48% in 2009 (Refer to figure 11)

Figure 12  Income return: 2006 to 2010: Pre and Post Rent: GFI $500,000 to $750,000

Figure 13  Income return: 2006 to 2010: Pre and Post Rent: GFI >$750,000

Respondents earning a GFI in excess of 750,000 were the smallest group in this more detailed analysis. Although the results are not regarded as representative, from the details provided a number of rural leasehold land owners in this
category have not experienced any significant income returns over the period 2006 to 2010, with small negative returns under 1.00% in 2006, 2007, 2008 and 2009. This group recorded only one positive income return of 1.75% in 2010.

On an average annual basis the average income return for these GFI groups over the 2006 to 2010 period were:

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Average Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$150,000</td>
<td>-1.79%</td>
</tr>
<tr>
<td>$150,000 to $300,000</td>
<td>-0.48%</td>
</tr>
<tr>
<td>$300,000 to $500,000</td>
<td>-0.26%</td>
</tr>
<tr>
<td>$500,000 to $750,000</td>
<td>-0.14%</td>
</tr>
<tr>
<td>&gt;$750,000</td>
<td>-0.28%</td>
</tr>
</tbody>
</table>

If the rental figure was removed from the total expenditure costs of the rural properties in the extended case study, a number of these groupings would have shown a neutral or slightly positive average annual income return over the period.

CONCLUSIONS

The survey has shown that the more diverse the production system on the leasehold rural property, the greater the chance to achieve a positive average annual income return over time. The mainly cropping leasehold properties have shown consistently higher income returns for 2010, compared to beef only, sheep only and beef/sheep production systems on rural leasehold land. The production system that has shown the lowest income return for 2010 was sheep only. These results emphasise the additional risk associated with single use leasehold rural land, particularly in periods of poor seasonal conditions and low commodity prices.

Leasehold holding size and potential gross farm income are major determinants for continued longevity on Queensland rural leasehold properties. This study shows that rural leaseholds earning a gross farm income between $150,000 to $500,000 are at the most risk of reduced farm income returns if lease rental costs increase significantly. The analysis of the 2006 to 2010 data shows that on an average annual basis over the period, on average these farms had a negative income return. This analysis also confirms that negative income return would increase significantly with an increased lease rental. Leasehold rural properties generating a net farm income greater than $500,000 had a higher income return in 2010, compared to the lower GFI properties. However, on an individual property basis a significant number of case study properties in this bracket were also subject to negative income returns over a number of years from 2006 to 2010.

Based on the 2010 data, the rent paid as a percentage of net profit averaged around 13% and with sheep only leasehold property this actually exceeded 20% of net profit. The leasehold rural property owner has the additional rent expense over and above the freehold property owner in the same location and land use, which can result in viability issues between the two types of property ownership. The high percentage of rent to net profit is further compounded in years where there is a net loss rather than a net profit from farm operations. The case study properties indicated that an income return of less than 0.5% can be eliminated by the rental payment alone, particularly in the beef only and sheep only leasehold production systems, which make up the majority of rural leasehold properties in Queensland.

The low income returns from rural production are a function of both variable income and the high cost of capital involved in rural enterprises. Rural land is a diminishing resource and is impacted by the growing demand from non rural land uses including mining. This decreasing supply and increasing demand from urban land use, mining and foreign investment has been the main driver for increasing land values for both leasehold and freehold land. As the capital value increases so does the lease payment for leasehold land under the current lease rental determination formula. The case study analysis has shown that the increasing lease rental based on increasing capital land values is reducing the percentage income returns for leasehold rural property owners and this can only be offset by increased production or commodity prices that in the case of sheep or beef only production systems are outside the capabilities of the owner. The current leasehold rental determination for leasehold land in New Zealand is based on the earning
capacity of the farm, with due regard to variations in production due to seasonal conditions and the impact of variable commodity prices. This is a similar approach also recommended by De Garis (2010) for private rural leases in Victoria.

FURTHER RESEARCH

The issue of rental determination for rural leasehold land has been an issue in a number of Australian States as well as similar agricultural countries such as New Zealand. A common concern in these jurisdictions has been appropriate method to determine an annual rent for leasehold rural land that both provides an adequate return to the public but at the same time does not impact on the viability of the leasehold operator. This initial survey data will now be further analysed to determine the impact of different lease rental determination methods and the subsequent impact on farm profits and viability.

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